OPENING STATEMENT OF
RANKING DEMOCRATIC MEMBER PAUL E. KANJORSKI

SUBCOMMITTEE ON CAPITAL MARKETS, INSURANCE, AND GOVERNMENT SPONSORED ENTERPRISES

FIRST HEARING ON INSURANCE REGULATION AND COMPETITION FOR THE TWENTY-FIRST CENTURY

TUESDAY, JUNE 4, 2002

Mr. Chairman, today we meet for the first time this year to discuss the insurance industry and the challenges that it faces. I commend you for your diligence in convening this series of hearings. Your efforts to educate the Members of our Committee about insurance regulation will potentially serve as the basis for future legislative action in this arena. I suspect, however, that it will take us at least several years to forge a consensus on this complicated set of issues.

The American insurance industry, as you know, is broad and diverse. According to one estimate, we have approximately 5,763 insurance companies operating in the United States. These companies vary greatly in size, structure, and product offerings. For the last 150 years, the states have traditionally regulated these insurers.

Nevertheless, a discussion of insurance regulatory reform -- including various proposals designed to increase the efficiency, promote uniformity of insurance regulation, or create an optional federal charter -- flows naturally from our actions in the 1999 law to modernize the financial services industry. That statute removed the obstacles that prevented banks, securities firms, and insurers from affiliating and competing with each other. It also provided for the regulation of financial products by function, rather than by institution. Additionally, that law reaffirmed the McCarran-Ferguson Act of 1945, which calls for the regulation of insurance at the state level.

The 1999 reform law has also begun to change marketplace dynamics. In fact, a number of insurers have reported that they increasingly find themselves in direct competition with brokerage firms, mutual funds, and commercial banks, all of which may have a competitive advantage due to their arguably more efficient federally based regulatory systems. For example, in many instances a bank may introduce a new product immediately without any action by their regulator, and securities firms can typically bring new products to market within 90 days. Insurers, however, sometimes have to wait more than a year to secure all the required approvals to offer a new product nationwide.

As a result of these and other changes, some now contend that the current regulatory system for the insurance industry has become too cumbersome and requires reform. For example, a recent study by the American Council of Life Insurers concludes that the lack of uniformity in state laws, the burden of dealing with numerous jurisdictions, and the excessive time required for new product approval are of paramount concern to insurers who want to compete nationally. In response to these mounting criticisms of state insurance supervision and the growing recognition that market forces have changed the financial services industry, the states have initiated their own efforts to modernize insurance regulation, primarily through the National Association of Insurance Commissioners.

This debate over how to reform insurance regulation has also seeped into Congress. Earlier this year, our colleague, Congressman John LaFalce, introduced H.R. 3766, the Insurance Industry

Modernization and Consumer Protection Act. His bill would allow insurers to obtain an optional federal charter and afford consumers with various protections. As we begin our series of hearings, I want to commend my Ranking Member for his leadership on this important issue.

From my perspective, the most important thing that we can do in the short term to help the insurance industry is to pass legislation to provide a terrorism reinsurance federal backstop until the private sector can address the problem. In the long term, we should also explore how to modify insurance regulation and whether we should create an optional federal charter. One idea that merits our consideration is whether we should create a tiered regulatory structure for the insurance industry as we have already done for investment advisers. The federal government would regulate insurers above a certain size or in certain business lines while states would retain the responsibility for regulating the rest. During these debates, we should also carefully examine consumer protection issues. In the end, consumers should be the ultimate beneficiaries of our actions.

In closing, Mr. Chairman, I believe it important that we learn more about the views of the parties testifying before us today. Their comments will help us to better understand the different approaches to reforming insurance regulation and the key challenges the industry faces. I also look forward to working with you over the coming weeks and months as we proceed with additional hearings to examine today's evolving insurance marketplace and the need for regulatory reform.